Washington State Department of
Financial Institutions

Consumer Services Division
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# DFI'S ROLE AND SUB-PRIME LENDING

The Consumer Services Division of the Department of Financial Institutions protects Washington consumers through periodic audits or examinations, through investigation of consumer complaints, and through enforcement actions taken when violations of law are discovered.

The Consumer Services Division regulates non-depository lenders and settlement service providers; such as **mortgage brokers, consumer loan companies, check cashers** (who also make small, short-term, high-rate loans known as Payday Loans), **and escrow agents**.

The Consumer Services Division conducts regular examinations of consumer loan companies, check cashers and sellers, and escrow companies. During these examinations, the Division's financial examiners:

- audit trust accounts and review internal routine and control to protect against theft or embezzlement;
- evaluate compliance with restrictions on fees in state law, sometimes requiring refunds to consumers; and,
- review compliance with disclosure laws to ensure consumers have access to necessary information to shop loan products and make smart credit decisions.

The Division conducts periodic examinations on a 24-month cycle.

**Many of the non-depository lenders we regulate provide services that are sometimes referred to a "fringe" banking services. These services include sub-prime loans secured by real estate, Payday loans to cover short-term cash flow shortages, debt consolidation loans, and check cashing services. These transactions often involve significant fractions of the consumer's wealth, and may put at risk what is typically their largest asset -- their home**.

The companies we regulate often provide financial services to consumers who cannot access traditional banking sources. This may be a result of geographical location, social or economic class, or past credit history. Unfortunately, these consumers are frequently the least able to protect themselves and least able to suffer a setback in their financial situation.

But more and more often, the companies we regulate are providing financial services to traditional middle class homeowners who find themselves unable to obtain services from traditional providers. We see more and more middle class consumers using the services of check cashers and sellers, and consumer loan companies. Mortgage brokers now generate over 50 percent of all mortgage originations in the country.

**Consumer loan companies make up what we now typically recognize as the "sub-prime lending market." Some of these companies call themselves mortgage lenders. Most often they offer to lend homeowners money to consolidate bills – often high interest credit card accounts. The loan is usually based on equity the borrower has in the family home.**